



North Carolina
Department of Administration

Roy Cooper, Governor

Machelle Sanders, Secretary

MEMORANDUM

To: Chairman George Cleveland, Joint General Government Oversight Committee
Chairman Dennis Riddell, Joint General Government Oversight Committee
Chairman John Alexander, Joint General Government Oversight Committee
Fiscal Research Division Staff, General Government Team

From: Secretary Machelle Sanders

Date: September 29, 2017

Re: Updated Report on Real Property Utilization

Please see the Addendum to our June 1, 2017 report on Real Property Utilization by State Property Office at the NC Department of Administration. This report has been updated to reflect additional agency response. Please contact Legislative Liaison, Katie Stanley at (919) 807-2425 or katie.stanley@doa.nc.gov if there are questions.

REAL PROPERTY UTILIZATION REPORT

Pursuant to SB 747, in December 2016, the Department of Administration distributed new space standards to all State agencies regarding State-owned and leased office space. Attached were the procedures to be enacted to measure the utilization of State-owned and leased office space. In addition, the Department of Administration asked those agencies to evaluate the current utilization of occupied space (agency self-assessment) by using the procedures provided by the Department of Administration, which sought to identify *unoccupied* or *unused* office/workstation space. Agencies responded with data on 899 locations for 5.62 million square feet of office space. For those agencies completing the self-analysis, the resultant agency self-assessments indicate a high level of utilization of both State-owned and leased space. The Department of Administration also made unannounced site visits to the various agency locations and found a high degree of space utilization. This report will address those results as well as the Department's plan for moving forward to utilize and enforce the new space standards while ensuring maximum utilization of State-owned and leased office space.

I. Office Space

The State of North Carolina owns or leases many different types of real property. This report will focus **only** on office space, since it represents a high percentage of the State's portfolio of real estate.

A. State Owned

The Department of Administration has traditionally assigned and managed most State-owned space in the Government Center but **not** State-owned space on University Campuses, Hospitals, Welcome Centers in State Parks, space on the Dix Campus, Prisons, Museums, Department of Transportation and Division of Motor Vehicle locations, Aquariums, the North Carolina Zoo, etc.

B. Leased

The State maintains 698 office and warehouse acquisition leases (90% office) representing **4.71 million** net square feet. The Department of Administration delegates to agencies the ability to execute leases no more than 3 years in length and no more than \$5,000 in annual rent. Authority to execute acquisition leases up to \$25,000 annually and no more than three years in length, has been granted to the Department of Health and Human Services, Department of Public Safety and Department of Agriculture and Consumer Services. Some Universities (through the UNC Board of Governors, Medical Family Practice Plan and UNC Hospitals) are not subject to the Department of Administration oversight in certain property transactions. A number of Boards and Commissions are likewise exempt.

II. Utilization

A. Agency Self-Assessment

In order to prepare a utilization plan, the Department of Administration has requested that agencies conduct a self-assessment of State-owned and leased space occupied by each agency to determine the existing vacancy in the office space. If an office or workstation was unoccupied, but the particular job was still funded, the space was not counted as vacant. All agencies have some degree of flux associated with staff leaving their jobs and others being hired. Agencies were not asked to re-program space since that would require a more detailed analysis by an architect to review all codes and occupancy issues involved. While all agencies did not respond to the self-assessment request, those that did responded with data for **899** different locations representing **5,621,912** square feet of State-owned and leased office space.

The results of the agency self-assessment are as follows:

Reported by Agency	# State Owned	# Leases	Total Locations	Combined NSF	Combined NSF Utilized	Usage ratio by Agency
ACS	80	46	126	268,678	266,450	0.992
Bds & Commissions	0	7	7	46,906	46,606	0.994
DEQ	4	18	22	434,106	413,854	0.953
DHHS	2	147	149	1,151,675	1,078,816	0.937
DOA	1	0	1	18,134	17,654	0.974
DOC	0	49	49	345,245	344,253	0.968
DOT	364	73	437	2,653,578	2,303,380	0.868
DPS	0	95	95	470,986	467,489	0.993
EIG	0	3	3	1,548	1,548	1.00
OSC	0	1	1	42,475	42,475	1.00
State Auditor	1	4	5	34,364	34,364	1.00
State Treasurer	0	1	1	97,667	88,789	0.909
Sec. of State	1	2	3	56,550	55,142	0.975
Totals	453	446	899	5,621,912	5,150,820	

B. Unannounced Site Visits

Pursuant to SB 747, the Department of Administration, State Property Office made unannounced site visits to State-owned or leased facilities occupied by the various State agencies. The Department of Administration identified office/workstation vacancies but did not attempt to re-program space since that would require a more detailed analysis by an architect to review all code and occupancy issues involved.

The results of the unannounced site visits are as follows:

SPO INSPECTED (May 2017)	# State Owned	# Leases	Total Locations	Combined NSF	Combined NSF Utilized	Avg. Usage Ratio
Totals & Averages	16	13	29	964,286	934,564	0.969

C. Combined Results of Agency Self-Assessments and SPO inspections

In summary, the State Property Office inspections and the Agency's self-reporting efforts generated the following overall results:

Overall Properties Reported or Inspected	Total NSF	Total NSF utilized	Avg. Usage Ratio
928	6,586,198	6,085,384	0.924

III. New Space Standards

Currently in both State-owned and leased office space, there are more hard-wall offices than workstation environments. The Department of Administration's objective is to reverse this trend, to a more modern standard with a higher percentage of workstations as compared to offices. The number and size of offices will be reduced and the workstation standard shall be 64 square feet. This modification should increase space efficiency throughout the portfolio. It should be noted however, that as density increases, there will be a need for larger areas for "circulation" of staff occupants and additionally a need for more parking spaces per SF of office space.

Adherence to such criteria may limit the quantity of buildings suitable for lease. Some agencies, especially "public facing" agencies, will maintain their unique needs. Guidelines and requirements from HIPAA, the IRS and other such operational mandates will ultimately shape the changes which can be feasibly made to an agency's specific office footprint.

IV. Utilization Plan

A. State-Owned Space

As existing office space is renovated or as new space is constructed, the design of the spaces will use the new space standards wherever possible.

B. Leasing

The new space standards will be utilized in the “Request For Proposals” for all new advertising. (Larger leases over \$25,000 annually or over 3 years in length). However, all factors (including moving costs) will be considered before enacting a relocation from existing spaces.

C. Other Plans

The Department of Administration will request and review site specific utilization plans for the various agencies and universities for space not traditionally managed by the Department.

D. Communicating Vacancy

The Department of Administration will inform all State agencies of their new responsibility to contact the Department of Administration any time vacancy at its State-owned or leased office space equals or exceeds 10%, for **any** reason. The State Property Office will investigate and, if appropriate, make efforts to “back-fill” and utilize the vacant space with another State agency. Every opportunity to implement the new space standards will be carefully evaluated for use in these types of space analysis.

E. New Metrics

The Department of Administration will work to develop the “square foot per employee” benchmark for State-owned and leased office space to assist in measuring the efficiency of the use of space.

F. Additional Unannounced Site Visits

The Department of Administration will continue to make un-announced site visits to buildings in the Government Center on an annual basis and additional site visits to other State sites as required.